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REVIEW OF THE EFFICIENCY OF THE ADMINISTRATIVE AND FINANCIAL FUNCTIONING OF THE UNITED NATIONS

Report of the Office of Inspections and Investigations, 1993-1994

Note by the Secretary-General

I am pleased to transmit to the General Assembly at its forty-ninth session the attached report of the Assistant Secretary-General for Inspections and Investigations. His report covers the work of his Office for the period since its establishment on 1 September 1993 until 31 July 1994, after which it was succeeded by the Office of Internal Oversight Services, established by the General Assembly by its resolution 48/218 B of 29 July 1994.

ANNEX

Office of Inspections and Investigations, 1993-1994

Report of the Assistant Secretary-General, Office of Inspections and Investigations, to the Secretary-General

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LETTER OF TRANSMITTAL

27 September 1994

Sir,

The Office for Inspections and Investigations was established a year ago as a result of the concerns of Member States and yourself about the way the United Nations was managed and the inadequacies of its oversight activities. The consolidation of existing resources devoted to auditing, monitoring, evaluation and management advice helped the Organization to improve more effectively management and financial controls as well as to detect and address waste and mismanagement. However, the potential of the Office could not be fully realized because of a lack of staff.

During the one year of its existence, millions of dollars have been saved by the interventions and recommendations of this Office through such actions as prevention of unwarranted expenditure and recovery of overpayments. It has also made many proposals for strengthening existing management practices and initiating new means for making staff members and especially managers more accountable in the areas of their responsibility. Since the details are to be found in the attached report I will not repeat them here. I would like to emphasize, however, one specific managerial issue that will have a significant impact in the administration of peace-keeping missions. These missions have to operate under very difficult conditions and these difficulties are further compounded by inexperienced staff in administrative functions and the existence of inappropriate controls. It is essential that peace-keeping missions be allowed greater flexibility to manage within their budgets. Requirements of submissions to Headquarters should be reviewed and unnecessary central reporting eliminated. Of course, it should be clearly understood that with this increase in authority and responsibility must go a corresponding increase in accountability, and that monitoring and essential controls must be maintained by Headquarters. It is also essential that more and more experienced staff be assigned to the administrative aspects of peace-keeping operations.

The existence of an oversight office with independent powers of investigation is now known. Contract violations are now more systematically reviewed in order to understand the reasons for violations and whether fraud was involved. Loss of property is now perceived as a problem for which individuals must be held accountable. The Administration has also been reminded often over the past year that it must take action on individuals with poor performance. But the managerial reporting systems in place are still not adequate for the purposes of accountability or, where necessary, investigation. Inventory controls on non-expendable property, for example, are not accurate enough in

His Excellency
Mr. Boutros Boutros-Ghali
Secretary-General

many cases to determine what is at hand and what should be there. These problems can hide or even cause substantial losses because they represent a lack of effective control over assets, liabilities, revenues and expenses.

The effectiveness of an oversight office depends to a large extent on how senior officers perceive their roles. The concept of management accountability in the United Nations has not been consistently applied. I support efforts to establish a system of accountability and responsibility and have participated actively in the task force on this subject and proposed measures for strengthening managerial accountability. However, no system of accountability will be effective without the assurance that sanctions will be promptly applied when violations occur. I strongly recommend that any new system of accountability and responsibility include specific penalties or sanctions for United Nations managers and other staff who disregard United Nations regulations and rules or who are negligent in the conduct of their duties and responsibilities.

On the responsibilities of the oversight office itself, it is essential to distinguish clearly between its mandates and functions and those of the Department of Administration and Management. The Department has responsibility for providing management services and for establishing sound management and financial systems and controls. An independent oversight office has the mandate to ensure compliance with General Assembly resolutions and all United Nations rules and regulations through audits, monitoring of performance, inspections, evaluations and investigations, which must necessarily include assessments of the work of the Department of Administration and Management.

The Office for Inspections and Investigations has initiated a comprehensive overhaul of the oversight functions of the United Nations. An Investigations Unit has been established and the inspection function initiated. The United Nations now has a full complement of essential oversight services, if only in embryonic form. The Office cannot ensure that fraud, waste and mismanagement will stop; it is, however, a deterrent to it. When such problems are discovered, the oversight office must determine the circumstances that allowed them to occur and recommend changes to strengthen management controls to prevent a recurrence. Once identified, all such problems must be referred to the appropriate department or office for resolution.

The number and geographic spread of United Nations activities makes the "universe" of the oversight office a vast one. The amounts involved are, for the biennium 1994-1995, over two and a half billion dollars under the regular budget, over three billion dollars in estimated extrabudgetary funds, several billion dollars more for peace-keeping operations and billions of dollars in the United Nations Joint Staff Pension Fund. The activities to be covered are spread geographically throughout the world in dozens of separate locations. All this is to be audited, inspected and evaluated by 60 Professionals and half a dozen supervisors. Consequently, most oversight assignments must necessarily focus on the riskiest areas, such as peace-keeping operations and offices away from Headquarters. In the audit plan for 1994, all the main peace-keeping missions will be audited. In addition, an in-depth evaluation of the problems of the start-up phase of peace-keeping operations will continue, having already presented its first report to the Committee for Programme and Coordination in

May 1994. Similarly, all regional commissions and many of their main subregional offices will be audited, with the Economic Commission for Africa, the Economic and Social Commission for Western Asia and the Economic Commission for Europe having also been subject to inspection reviews in 1994.

Shortage of resources, however, means that sectors of less risk, and therefore lower priority for oversight, will be audited on a cycle that will cover most activities in these sectors only every five or six years, or perhaps even less frequently. There are, for example, over 1,400 ongoing technical cooperation projects in the Department for Development Support and Management Services; in 1994, it is planned to audit 47 projects, or a little over 3 per cent, representing about 14 per cent of the total budget for all projects. There are over 160 trust funds, of which 6, less than 4 per cent, are planned for audit; these 6 account for about 16 per cent of fund balances as at 30 June 1993.

The Office commenced its work with high expectations but with what was acknowledged by the Advisory Committee on Administrative and Budgetary Questions, the Joint Inspection Unit and the Board of Auditors to be an inadequate level of resources. During this first year, the Office of Inspections and Investigations has addressed symptoms but has not yet been able to address the root causes of many problems of the United Nations. I refer to such issues as recruitment and promotion policies, the administration of justice, management reporting systems, staffing and financing of peace-keeping operations and contract management.

A vast amount of work remains to be done before the United Nations has management structures and a management culture adequate to the great tasks entrusted to it. The attached report is the record of a small but, I hope, discernible contribution to this objective.

(Signed) Mohamed Aly NIAZI
Assistant Secretary-General
Office of Internal Oversight Services

I. BACKGROUND

A. Organization and functions

1. Effective 1 September 1993, an Office for Inspections and Investigations (OII) was established (ST/SGB/262). It incorporated the following existing units: the Internal Audit Division (IAD), the Central Evaluation Unit (CEU), the Central Monitoring Unit (CMU), and the Management Advisory Service (MAS). The Office was based in New York, with sections at the United Nations Offices at Geneva and Nairobi and, while an integral part of the Secretariat, was entirely independent in the conduct of its duties and responsibilities. It had authority to initiate any audit, inspection or investigation it considered necessary without any hindrance or need for prior clearance.

2. A detailed description of the functions of the Office is contained in Secretary-General's bulletin of 23 November 1993 (ST/SGB/268). These functions were further elaborated in the relevant reports of the Secretary-General (A/48/640 and A/C.5/48/42). After those reports were issued, a number of changes were introduced to accommodate the new functions of the Office:

(a) The role of CMU was strengthened by incorporating it within a broad inspection function in the context of the overall responsibility of OII. The new Central Monitoring and Inspection Unit (CMIU) continued to assume the responsibilities prescribed in regulations 5.1, 5.2 and 5.3 of the Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation, but also conducted ad hoc inspections of programmes and organizational units;

(b) The Investigations Unit was established on 1 February 1994 and consisted of encumbered posts redeployed from the former IAD and MAS;

(c) MAS was incorporated into IAD, which was renamed the Audit and Management Control Division (AMCD).

3. In accordance with General Assembly resolution 48/218 B of 29 July 1994, the Office of Internal Oversight Services assumed the functions of OII.

B. Resources

4. The resource base of OII consisted of the existing resources of IAD, CEU, CMU and MAS.

II. RESULTS

A. Improvements in the internal oversight functions

1. Lines of authority

5. Even though OII was created purely from redeployment, a great deal changed by simply collecting existing oversight units into one new Office. There was an immediate reduction in the hierarchical lines of communication for CMU and CEU, which were previously located in the Programme Planning and Budget Division. This meant that the chiefs of those units reported to the Director of the Budget who, in turn, reported to the Controller who, in turn, reported to the Under-Secretary-General for Administration and Management who, in turn, reported to the Secretary-General. Each of these intermediate senior officials had a large range of competing claims on their attention and a large range of managerial responsibilities other than the supervision of oversight functions. The head of the new Office reported directly to the Secretary-General so that the line of communication between those responsible for oversight functions and the Chief Administrative Officer of the Organization was drastically shortened. In addition, and equally importantly, the head of the Office had no competing claims on his attention. He was the first senior official who could devote full attention to the oversight functions of the Organization and the problems that they uncovered. This change meant that ongoing work could be conducted with more authority than before.

6. Under the old organizational arrangement, staff in CMU, CEU and MAS could not insist on seeing confidential memoranda that they considered might be pertinent to their work. With their merger into the new Office, this power was granted to them. This change has resulted in a significant difference in work methods and results, and in the speed with which the work can be conducted.

7. Prior to the creation of OII, CMU, CEU and MAS were located in the Department of Administration and Management (DAM), the work of which represents a significant portion of the budgetary expenditures of the Organization. This was an anomalous situation, which violated a standard rule for oversight functions, namely, that those charged with those functions should be independent of the activities they are reviewing and should also be seen to be independent. This anomaly was corrected by the creation of OII.

8. The consolidation of those functions also meant that all units could operate under standard audit procedures, wherever appropriate. Under those procedures, findings are submitted to the appropriate official at the divisional or departmental level with a request for the correction of any errors of fact. Remedies and solutions to the problems characterized are then proposed. The responsible officials are invited either to agree to those remedies or to formulate alternative solutions that would deal with the problems expeditiously and in a manner satisfactory to the oversight office. Recommendations contain deadlines, and any alternative suggestions by departments have also to contain commitments for action by definite dates.

2. New oversight functions

9. With the creation of an Investigations Unit and the initiation of the inspection function, the United Nations now has a full complement of essential oversight services. Five inspections had been conducted as at the end of August 1994: of the Economic Commission for Africa (ECA), the Economic and Social Commission for Western Asia (ESCWA), the Centre for Human Rights, the Economic Commission for Europe (ECE) and staff training activities.

3. Compliance

10. Compliance with requests by Member States is the responsibility of the department or office to which the request is assigned. The main method of checking such compliance is the information gathered as part of programme performance monitoring. That procedure is assisted by audits of submissions by departments and offices to CMIU and by comprehensive inspection reviews of units and programmes where there are good reasons to believe that programme oversight is less than adequate and the potential for a wasteful utilization of resources is great.

11. To monitor the compliance with its own recommendations and to take follow-up measures in case of non-compliance, the Office has designed a monthly compliance-monitoring report covering the activities of the four organizational units of the Office.

12. The United Nations has operations in many different locations around the world. The pattern of the nature and sources of non-compliance with internal regulations, rules and procedures differs markedly between locations. Analysis of the causes of audit recommendations by nature and source will be undertaken for each geographical location in order to guide future audits and inspections.

4. Common analytical perspective

13. The procedures and practices of IAD prior to the establishment of OII included analyses used in the development of audit plans that took into account, inter alia, factors relating to the riskiness of an activity. A preliminary risk analysis was undertaken in OII, using a common assessment instrument for audit, monitoring, evaluation and inspection activities. The assessment was applied to a "universe" consisting of all activities under the responsibility of the Secretary-General. Each budget section in that universe was scored against standard criteria for three risk factors: size, visibility and previous findings. The size factor measures potential risk by the volume of financial resources controlled. The visibility factor measures political aspects of risk and the previous findings factor reflects either the lack of prior assessment or the extent of difficulties.

14. The results of the analysis were used in determining which programmes to propose to the Committee for Programme and Coordination (CPC) for in-depth evaluation (see A/49/99, paras. 24-34).

5. Greater integration of oversight functions

15. Performance monitoring is of wide potential significance for the work of all departments and offices. A proper system of information-gathering for oversight purposes must be established in each organizational unit as an integral part of the managerial process. The information gathered should be of a qualitative as well as a quantitative nature to enable analytical assessment of performance and results achieved. The setting up of such a system requires combining, in one single function, the existing data-gathering exercise for reporting on implementation of outputs and the self-evaluation exercise, which reports on results achieved. Ultimately, the self-evaluation exercise will be transformed into a performance evaluation function that generates data and analytical information on a routine and comprehensive basis for the purpose of providing management with the means to assess the results of activities implemented during the biennium and to determine the relevance of those results to objectives, within a system of accountability.

6. Resident auditors in peace-keeping missions

16. Resident auditors were outposted against mission posts at two peace-keeping missions, the United Nations Protection Force (UNPROFOR) and the United Nations Operation in Somalia (UNOSOM) II, in July 1994. Coverage will increase as resources permit.

17. The Resident Auditor is directly responsible to the oversight office through AMCD. The Resident Auditor is located in the Office of the Special Representative of the Secretary-General and provides the latter with whatever assistance may be required within the field of financial and management control, and informs him of special or urgent issues that may require his personal attention. The Resident Auditor will also work with the Force Inspector-General and the Provost Marshall as necessary. The Resident Auditor is subject to rules, policies and procedures adopted locally by the mission to govern United Nations international staff assigned to the mission. His official activities are conducted according to established internal auditing standards and periodic audit plans or assignments approved by AMCD, which may include audit assignments as requested by mission management. The mission must respect the independence of the Resident Auditor and allow him to carry out his functions freely and objectively.

18. The Resident Auditor submits a monthly status report to AMCD, and observes the following reporting requirements:

(a) All findings and recommendations shall be reported to the responsible officer for immediate action. Those findings will be communicated, as necessary, in the form of audit notes or observations;

(b) A quarterly report containing all outstanding or significant issues shall be submitted by AMCD to the Special Representative of the Secretary-General with copies to the Field Operations Division and the Department of Peace-keeping Operations.

19. The Resident Auditor coordinates work with visiting external auditors and carries out preliminary surveys and reviews as may be requested by visiting audit teams of AMCD. The Resident Auditor has unrestricted access to all documents, records and personnel of the mission as may be required in carrying out audit assignments.

7. Training of staff

20. The Office's activities included new functions that require new skills in such fields as investigation, inspection and management audit. Since the Office did not receive additional staff resources, the training of available staff presented a major management challenge. For this purpose, the Office continued and expanded the IAD training programme so that staff could acquire new skills and update existing skills. The training plan consisted of both internal group training, with the assistance of outside experts, and individual training through attendance of workshops and seminars organized by professional organizations or institutes.

Table 1. OII training courses, seminars and workshops

(1 September 1993-30 June 1994)

Workshop/seminar	Number of participants
IMIS overview and Release 1 business systems	15
Fraud auditing	26
Statement of audit findings and recommendations	7
Management auditing workshop	15
Statistics for auditors	15
Performance auditing	10
Management audit	27
Counterfeit United States currency	11
Innovations in contract audit	17
Standards for evidence	1

21. In view of the new commitment of the Organization to pursue criminal prosecution as well as civil action for the recovery of losses, a two-week intensive training programme in basic criminal investigation was also formulated in cooperation with the United States Inspector General Academy and the Federal Law Enforcement Training Center at Glynco, Georgia. All the investigators of the Investigations Unit and three internal auditors participated in the training in August 1994. Advanced training of investigators in specific aspects of investigation is to take place in the following months.

8. Relations with external auditors

22. The work of the internal auditors is a significant factor in determining the nature, timing and extent of external audit procedures. To accomplish their different objectives the external and internal auditors have access to the same records and personnel. Maximizing the effectiveness of the combined audit effort requires close coordination. Existing practices were continued through regular meetings with the Board of Auditors, exchange of work programmes and travel plans, and coordination concerning locations to be visited, the timing of the visits and general audit scope. Through those practices, duplication of effort is minimized. Copies of all internal audit reports are sent to the external auditors who in turn send copies of their reports to the Division. It should be stressed, of course, that notwithstanding arrangements such as these, the external auditors make the final decision on the extent to which internal audits will influence their own.

B. Qualitative results: improvements in the functioning of the United Nations

1. Responsibility and personal accountability

23. There is a continuing lack of serious disciplinary measures in cases involving blatant mismanagement. The United Nations must find a proper way to deal with cases where managers or other staff members violate rules or neglect their duties. Changes in rules, procedures or instructions will do little to improve accountability unless a concerted effort is made to change a management culture, developed over many years, that often permits no action to be taken, when regulations, rules or instructions are disregarded. In establishing a system of accountability and responsibility, it must be made absolutely clear to all that failure to comply with rules and established procedures will result in prompt disciplinary action. The Office strongly recommends the adoption of specific penalties or sanctions for United Nations managers and staff members who disregard United Nations regulations and rules or who are negligent in the conduct of their duties and responsibilities.

24. The effectiveness of the Organization is dependent in large part on the competence, motivation and behaviour of its staff in general and its senior managers in particular. How can we expect staff members to comply with United Nations rules and standard procedures if senior managers are lax or neglectful in their own conduct, or choose to ignore the enforcement of those rules in their own activities? Senior managers must serve as role models for the staff

at large and must be scrupulous in complying with United Nations rules, policies and standards. It is important to highlight the special responsibility of senior managers to uphold the highest standards of conduct.

25. The assignment of responsibility for all the necessary functions associated with a task is an important but often neglected aspect of management. As a result, there is often overlap, conflict or, worst of all, sometimes gaps in the assignment of responsibility. This is unacceptable. The in-depth evaluation of the start-up phase of peace-keeping operations, 1/ for example, found that, for a number of key components of those operations, important responsibilities had not been assigned to any organizational unit. To cite another example of the problem, several recent cases have involved contractors who have complained irately about the uncertainty and lack of coordination that exists at the United Nations with respect to ongoing responsibility for supervising their respective contracts. This is an issue of the utmost importance, which must be clarified by senior management and, once a decision is made, it must then be clearly disseminated to all parties involved, so that there is no misunderstanding as to which office has been entrusted with the responsibility for monitoring implementation of any contract.

2. Management of peace-keeping operations

26. Because of the large increase in field activities, particularly peace-keeping operations, it is essential that the Organization review its control procedures in order to ensure they are effective and are serving the desired purpose and are not an impediment to implementation. Peace-keeping missions must be allowed flexibility to manage within their budgets. Headquarters should review the rules and procedures governing those operations and reduce to a minimum red tape and bureaucratic requirements; unnecessary central reporting requirements should be eliminated. However, it should be clearly understood that monitoring and essential controls must be maintained by Headquarters. Greater delegation of authority to the field will require:

(a) Field staff to be held responsible for better control over operations and the resources entrusted to them;

(b) The controls to become an integral part of operations and the accountability process, rather than an administrative add-on.

27. The Department of Peace-keeping Operations still does not have an adequate number of personnel with the required expertise to manage peace-keeping operations. The invisible cost of conducting those operations with inadequate staff is a breakdown in attitude towards controls; pressure to get the job done is taking precedence over compliance with regulations and rules even in circumstances that in no way justify emergency procedures. As a result, it becomes risky for Headquarters to transfer and delegate responsibility to the field to the extent needed for efficient management even though it is advisable to place decision authority in the hands of those who are directly responsible for the management of peace-keeping operations. Such decentralization of managerial decisions has an effect on both control and accountability. The greater latitude in the management of peace-keeping operations that the

Department of Peace-keeping Operations would like makes it necessary that field missions be staffed with an adequate number of competent personnel. It should be stressed that, irrespective of any new arrangements regarding delegation of authority, the effectiveness of control should not change, only its nature and location. Headquarters must continue, and in fact increase, the monitoring of what is happening in mission areas as part of any decentralization of decision-making, in order to avoid duplication of effort and waste of resources. The placement of resident auditors reporting to OII in the field in peace-keeping missions has been described above.

28. Audits have indicated serious deficiencies in timely staffing of administrative functions and of experienced personnel in those functions. There are persistent problems with in- and out-surveys of the military hardware brought to the mission area, which can cost the United Nations substantial amounts of money in overpayments. The inventory control in the peace-keeping missions has to be substantially improved in order to avoid losses of materials and equipment, especially at the end of the mission.

29. The in-depth evaluation of the start-up phase of peace-keeping operations 1/ was a systematic review of the capacity of the United Nations to learn from experience and a stocktaking of the existence of responsibility centres, doctrine, standard operating procedures and operationality for substantive components of missions. The evaluation study found that few systematic procedures existed that would permit the United Nations to learn from its experience in peace-keeping operations and that a ready capacity to act did not yet exist for most components, and made over 20 recommendations to address those problems. A statement of the programme budget implications of the recommendations is to be submitted to the General Assembly at its forty-ninth session.

3. Other specific programmes

30. An essential aspect of programme management that is not always fully recognized is the need to have an adequate programme oversight system to oversee the formulation and execution of the work programme and the assessment of results achieved. The inspections conducted to review the programmes and administrative practices in three offices away from Headquarters, namely ECA, ESCWA and the Centre for Human Rights, have identified deficiencies in programme oversight and the management of resources appropriated to the programme. In the case of ESCWA and the Centre for Human Rights, the deficiencies were quite serious. OII recommended a reorganization of those programmes and their methods of work, including the strengthening of programme oversight and the system of resource control. This is of utmost importance if we want to ensure that resources are used efficiently and that the needs of Member States are addressed effectively.

31. Unlike ESCWA and the Centre for Human Rights, the problem in the case of ECA was the undue dispersal of programme management and the absence of a coherent control over resources. There were three different responsibility centres for programme oversight within ECA along with three separate focal points for financial authorization. OII recommended a single programme

oversight mechanism to better integrate and coordinate all ECA activities irrespective of their source of funding. OII also recommended that the financial authorization for all funds be centralized in the Division of Administration.

32. The recommendations of the inspection review of the programme and administrative practices of ESCWA had already been implemented and those of ECA were in the process of being implemented at the time the present report was drafted. The impact of such implementation in terms of qualitative improvement of the ESCWA programme of work has already been reflected in the favourable comments contained in the reports of the intergovernmental bodies that reviewed the revised programme, namely, the ESCWA Commission and the Committee for Programme and Coordination.

4. General procurement procedures

33. The audit coverage of this important area is wholly inadequate as a result of a lack of auditors. Procurement remains an area of serious concern in spite of the efforts and improvements made by management. The extent of exceptions to bidding is a problem that has not been addressed; major procurement contracts continue to be by limited invitation instead of open tender; rosters of suppliers are not updated and reviewed regularly. The management and supervisory control of large contracts leaves a great deal to be desired. In these circumstances a number of violations are likely to remain undetected.

34. As a result of initiatives taken by OII, procurement policies concerning the following are under review:

(a) Roster of vendors: procedures governing (i) the inclusion and removal of companies from the roster of vendors to ensure that only companies that offer goods or services of a kind which the United Nations can reasonably expect to require in the foreseeable future would be registered; and (ii) the review of the roster, to see that it is current and continues to reflect reliable information, and that a rostered company that has failed to respond to three successive invitations to bid has been notified that its name is being removed from the roster;

(b) Advertising: a requirement that all requisitions received for procurement of goods and/or services in an estimated amount of $1 million be subject to advertising, unless appropriate justification for an exception is available for the record;

(c) Payments for tender documents, and security and performance bonds.

5. Aircraft chartering

35. Because of the large sums involved, questions on aircraft chartering were raised by OII, and a Task Force on Aircraft Chartering was established in March 1994, which included representation from OII, the Purchase and Transportation Service, the Field Operations Division and the Office of Legal Affairs. The Task Force identified a number of specific areas where improvements could be made in exigency requisitioning and short-term and long-term chartering.

36. For short-term charters, the Task Force recommended to the Under-Secretary-General, Department of Administration and Management, that PTS and OLA explore the possibility of employing identified regional correspondents to receive and distribute the United Nations aircraft requirements and to distribute advertisements among potential suppliers. For long-term aircraft chartering, recommendations for improvement included sending invitations to bid only to pre-qualified and certified carrier/operators (not commission agents or brokers) and that letters of assist be included in the competitive bidding process. In addition, the Task Force recommended that the liaison between the mission reconnaissance team and the implementation team be strengthened; that the staffing of PTS and the composition of the Headquarters Committee on Contracts should be reviewed; that the REALITY system in PTS and the currently incompatible REALITY system in FOD be linked electronically; and that the use of an electronic bulletin board be explored. At the time of completing the present report these recommendations had not yet been adopted.

6. Cash management

37. The loss in April 1994 of $3.9 million in Somalia could have been prevented if the relevant audit recommendations made in December 1993 had been implemented. Since the Somalia loss, the administration has made efforts to tighten controls over the custody of cash and cheque-books; however, in view of the number of the bank accounts (489, as at 31 July 1994) maintained by the Organization at Headquarters and in the field, it is particularly important for audit to check them. Audit relies on the system of internal controls, which requires that cash balances always be kept at a minimum and kept in a secure place at the close of business. Measures have been taken to limit access to safes where cash and cheque-books are kept. The administration has also made progress in the reconciling of bank accounts, which is essential in an environment where forged cheques are becoming more prevalent. However, there is still no regular mechanism to monitor bank reconciliations. Over a dozen attempts to pass forged cheques have been made in the last year. The United Nations was fortunate that the bank in most cases was vigilant and stopped the cheques or reimbursed the Organization.

38. The technical advances of desktop publishing have helped counterfeiters produce virtually undetectable fraudulent cheques. The increase in counterfeit cheques drawn against United Nations accounts calls for heightened vigilance by its finance officers to identify the forged cheques at the earliest possible instance. This requires prompt reconciliation of all bank accounts established

by the United Nations Treasurer and a reporting mechanism to assure management that reconciliations are being done on a timely basis.

39. Lessons gathered from the investigation of fraud, attempted fraud and theft during 1994 have resulted in the recommendation of countermeasures to senior programme managers.

40. There has been some recovery of funds as a result of the first few months of activity by the Investigations Unit. A number of attempts to cash fraudulent and counterfeit cheques, with face values totalling $2,749,900 and £15,222, have been stopped by the banks. A large amount of loss from theft, however, remains unrecovered, in particular the theft of $3.9 million mentioned above, which is being investigated with the assistance of Scotland Yard; the results will be reported on completion of the investigation. These cases remain open and concerted efforts will continue to effect recovery.

7. Integrated Management Information System

41. AMCD continues to find problems affecting the success of the IMIS project in the course of its audits.

42. The consistent leadership of a strong steering committee is essential to the successful development of any large, integrated computer application. Regrettably the project has not had any continuity at that level. The chair and the heads of the major offices that are critical to the success of the implementation of IMIS (i.e. the Office for Programme Planning, Budgeting, and Finance and the Office of Human Resources Management) have changed repeatedly since the inception of the project, making accountability and responsibility extremely difficult to maintain. Efforts have been made to improve tracking of progress against the schedule, provide needed resources, monitor issues and control the budget. The real test, however, will be the ability to coordinate project activities that fall outside the IMIS project team's mandate, which is limited to the development of the application software. Previous efforts were unsuccessful in that regard.

43. Overall project management is still not defined to encompass the entire project. It is restricted to the application software and if left unaddressed will result in an incomplete development effort. Unless this overall management is successful the objectives and benefits forecast for IMIS may never be achieved even though the automated portion of the system and the technology platform are currently on the road to success. The existing payroll system can serve as an illustration of this point. The data reflect irregularities that have been known for at least a year but for which no effective corrective action has been taken. This is not an IMIS development problem, but it is a condition that needs to be resolved within the Organization if IMIS is to be implemented.

C. Quantifiable results: savings, recoveries and cost efficiencies

1. Savings and recoveries

44. Many problems dealt with by the Assistant Secretary-General, Office for Inspections and Investigations in the last year have resulted in significant savings. For example, on a number of contractual arrangements, unnecessary expenditures of several million dollars were prevented. As a result of other interventions, recoveries of overpayments for contracts amounted to more than an additional $2 million.

45. The audit recommendation codes contain eight categories of financial implications for audit findings, including recovery of overpayment, prevention of overpayment, reduction in actual expenditure, realized additional income and recovery of fraudulent amounts. Data on the estimated value of the implementation of audit recommendations is summarized in the following table. The method of calculating these estimates is conservative, with prevention of overpayment and of excessive or unjustified expenditure calculated as one-time savings only.

Table 2. Financial implications of audit recommendations

(1 September 1993-30 June 1994)

Audit code	Category	Number of recommendations	Amount recommended (Thousands of United States dollars)	Amount realized (Thousands of United States dollars)
401	Recovery of overpayment	20	458.6	404.3
402	Prevention of overpayment	4	38.9	0.3
403	Reimbursement of underpayment	2	(58.2)	-
404	Prevention of underpayment	-	-	-
405	Actual expenditure reduction	7	355.4	-
406	Prevention of excessive and/or unjustified expenditure	15	569.3	14
407	Realized additional income	3	35.9	-
408	Recovery of fraudulent amount	1	0.5	-
	Total	52	1 400.4	418.6

2. Cost efficiencies

46. In general, recommendations arising from inspections, programme performance reports and in-depth evaluations are concerned with qualitative improvements in the content and management of programmes and do not lend themselves to quantification even though the savings resulting from them may be very large. In the case of the in-depth evaluation of the start-up phase of peace-keeping operations, for example, the implementation of its recommendations would significantly improve the capacity of the United Nations to learn from its experience with peace-keeping operations and to deploy new operations more effectively. Given the scale of those operations, now involving billions of dollars a year, and the fundamental nature of the problems identified, any significant improvement along the lines proposed in the in-depth evaluation could result in savings of many millions of dollars compared with current practice.

47. An OII inspection report on staff training programmes was transmitted to DAM in August 1994. Implementation of the recommendations of that report could release approximately $4.5 million per biennium under the language training programme without affecting the achievement of its mandated objectives. The amount associated with proposals concerning language incentives is more difficult to estimate; a range of $3 to 4 million was given in the executive summary of the inspection report. The inspection report recommends that all funds released by the measures proposed should be redeployed to high-priority training activities.

III. PROBLEMS OF OVERSIGHT IN THE UNITED NATIONS

A. Resources

1. Overall level

48. It was generally agreed by the Advisory Committee on Administrative and Budgetary Questions, the Joint Inspection Unit and the Board of Auditors prior to the establishment of OII that the resources available for oversight functions in the United Nations were insufficient for the proper conduct of those functions.

49. In 1987, the Advisory Committee on Administrative and Budgetary Questions, after reviewing the proposed programme budget for the biennium 1988-1989 for IAD, expressed the hope that urgent steps would be taken to ensure that the necessary staff resources were available so that the adequacy of internal control was assured. 2/ In 1989, the Advisory Committee, after reviewing the proposed programme budget for the biennium 1990-1991 and noting that audited expenditures from extrabudgetary funds in fact exceeded expenditure under the regular budget, recalled its 1987 statement and recommended that consideration should be given to strengthening the staffing resources of the Division, the cost to be borne by extrabudgetary funds, bearing in mind the share of audit work represented by extrabudgetary activities. 3/

50. In 1990, the Joint Inspection Unit pointed out in its report entitled "Extrabudgetary resources of the United Nations: towards transparency of presentation, management and reporting" that, in view of new policy problems and management weaknesses existing at present in the administration of extrabudgetary activities, the audit function should be given more importance and independence, but extensive audit coverage had been hampered by resource constraints (A/45/797, para. 82).

51. In 1992, the Board of Auditors, in its report to the General Assembly at its forty-seventh session, 4/ underscored the need to redress the staffing structure of the Division:

> "A corollary to the evaluation of audit coverage is the review of Professional resources, which indicated that the present staff complement of the Division is significantly below the expected level of performance and the number of auditors needed to provide adequate audit coverage, considering the nature of the audit responsibilities and the scale of United Nations activities.
>
> "The classification table of the Division showed that one third of its Professional-level posts are at the entry level such that holders of these positions do not generally have the relevant audit experience needed in discharging competent internal audit functions. As a result, the quality of work suffers and the time of supervisors is utilized more in providing routine, basic on-the-job training, as well as in monitoring and reviewing the performance of the staff concerned. The nature of the audit work requires certain standards and competencies which can be obtained if the appropriate positions become available to those who possess such qualifications.
>
> "The Board recommends that the staff resources of the Division should be reviewed, in terms of number and classification of posts, the existing and desired levels of competencies of the staff, and the hiring and promotion policies which tend to impede the installation of a cadre of competent and qualified internal auditors at the United Nations."

52. On 23 December 1992, the General Assembly adopted resolution 47/211, in which it approved all the recommendations and conclusions of the Board of Auditors and encouraged the Secretary-General and the executive heads of United Nations organizations and programmes to take urgent steps to strengthen the independence and effectiveness of the internal audit function.

53. Unfortunately, although the lack of resources was recognized, not only were no additional resources provided (other than the Assistant Secretary-General post for the head of the Office) because of budgetary constraints, but, owing to a shrinkage of extrabudgetary resources, the Professional posts available to OII actually decreased between the end of 1993 and mid-1994.

Table 3. Posts in the Professional category and above (regular budget and extrabudgetary)

	Prior to OII a/	OII b/
Assistant Secretary-General and his Office	-	2
Audit	53	50 c/
Investigation	-	5
Programme performance monitoring	4	4 d/
Evaluation	6	5 e/
Inspection	-	- f/
Management Advisory Service	6	-
Total	69	66

a/ A/C.5/48/42, dated 6 December 1993, table 1.

b/ A/C.5/48/82, dated 16 July 1994, table following para. 16.

c/ Includes new management control function.

d/ Includes management of the inspection function.

e/ One P-3 (extrabudgetary) post is on loan to ECLAC to initiate evaluation.

f/ Inspections are ad hoc assignments drawing on staff in all units of the Office, and other offices as required.

2. Consequences of staff redeployment to new functions

54. The establishment of OII caused a serious drain on the resources devoted to audit. In order to provide minimal staff for the Office of the Assistant Secretary-General, and to establish an Investigations Unit, posts were redeployed from the former IAD and MAS. In addition, because of urgent cases that must be dealt with, two additional staff have been redeployed temporarily from AMCD to investigate cases of fraud and abuse on an "as-needed" basis.

55. Inadequate staffing for the audit function has resulted in:

(a) Audit coverage below the standard indicated by risk analysis for many areas of United Nations operations;

(b) Short cuts in certain internal auditing standards (including following up on audit recommendations) in order to save time for the performance of audit assignments;

(c) Problems with planning, organizing, controlling and supervising of audits because senior auditors must devote a great part of their time to actual auditing.

Permanent and temporary redeployment of staff to areas outside audit has resulted in an estimated reduction of audit coverage in 1994 of at least 15 per cent. The Division must carry out all tasks that were previously performed by MAS (administrative issuances such as ST/SGBs, ST/AIs and ST/ICs, form control, Organization Manual, etc.) with less posts than MAS had before. This has contributed not only to slower execution of the functions just mentioned but also hampered efforts to establish an effective management audit function.

B. Administrative support and independence

56. Owing to a lack of resources, OII received administrative support from the Executive Office of DAM. This was an anomalous situation since it meant that OII was provided with essential services, involving staff, travel and other administrative matters, by the largest of the departments whose work it was supposed to review.

Notes

1/ E/AC.51/1994/3.

2/ Official Records of the General Assembly, Forty-second Session, Supplement No. 7 (A/42/7), para. 28F.4.

3/ Ibid., Forty-fourth Session, Supplement No. 7 (A/44/7), para. 28E.6.

4/ Ibid., Forty-seventh Session, Supplement No. 5 (A/47/5), vol. I, paras. 292-294.